

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking Regarding
the Implementation of the Suspension of
Direct Access Pursuant to Assembly Bill
1X and Decision 01-09-060.

Rulemaking 02-01-011
(Filed January 9, 2002)

**REPLY OF THE CALIFORNIA CLEAN DG COALITION
TO RESPONSES TO PETITION FOR MODIFICATION
OF DECISION 03-04-030: OPINION ON COST
RESPONSIBILITY SURCHARGE MECHANISMS FOR
CUSTOMER GENERATION DEPARTING LOAD**

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December 27, 2006

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Pursuant to Rule 16.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), and the December 18, 2006 electronic authorization message from Administrative Law Judge Pulsifer, the California Clean DG Coalition (CCDC) files this Reply to the Response of PG&E to CCDC's Petition for Modification of Decision (D.) 03-04-030: Opinion on Cost Responsibility Surcharge Mechanisms for Customer Generation Departing Load (Petition) and the Reply Comments of SCE.

1. *Introduction.*

In its Petition, CCDC requests that the Commission modify D.03-04-030 to increase the cost responsibility surcharge (CRS) exception eligibility limit for small, clean distributed generation (DG) systems 5 MW or less, with the exception applying to the total eligible capacity. CCDC's request is based on recent technological advances in the field of CHP systems, and anticipated future corresponding improvements in economies of scale. CCDC received one response to the Petition from PG&E and one reply to PG&E's response from SCE.¹

¹ PG&E filed its Response on December 14, 2006 and SCE filed its Reply Comments on December 22, 2006.

2. *An Increase in CRS Exemption Eligibility for Small, Clean DG Systems 5 MW or Less Will Not Shift Costs to Other Customers.*

CCDC appreciates PG&E's acknowledgement that "based on the technological innovations described by CCDC in its petition, it appears that larger scale DG may be becoming more practical" and that, without an expanded exemption from CRS, such larger scale DG "faces an additional investment hurdle, vis a vis a smaller system."² Nonetheless, while PG&E does not oppose providing a 1 MW exemption to clean DG not exceeding 5 MW in capacity, PG&E opposes providing a complete CRS exemption beyond 1 MW.³ SCE does not oppose PG&E's suggestion.⁴

PG&E does not clearly state any particular reason for its opposition for an exemption for the total system for small, clean DG 5 MW or less in size. PG&E alludes to the need to strike a "balance between encouraging DG and spreading more CRS costs onto remaining customers."⁵ SCE also generally raises cost shifting as an issue.⁶ To the extent PG&E and SCE assert that an exemption beyond 1 MW would shift costs, CCDC disagrees.

CCDC believes that a cost-benefit analysis will show that the benefits of DG outweigh its costs. Although the Commission has yet to complete the cost-benefit phase of the current DG Rulemaking (R.06-03-004), the Commission correctly found in D.03-04-030 that "[o]n the basis of the policy preferences already articulated by the Legislature, as codified in recently enacted statutes, and by this Commission, however, we believe that there is sufficient policy basis to believe that customer generation confers a positive public benefit."⁷ Under this rational, bundled customers will realize system benefits, not costs, from additional installations of small, clean DG.

Further, in D.03-04-030, the Commission explicitly stated its intent to revisit the 1 MW limit for exceptions to CRS for small, clean DG based on technological advances and increased economies of scale in DG production and sales.⁸ Notably, the *only* rationale stated by the

² Response of PG&E, p. 2. SCE similarly acknowledges the development of "larger, more technologically advanced clean DG units." (Reply Comments of SCE, p. 3.)

³ *Id.*

⁴ Reply Comments of SCE, p. 3.

⁵ Response of PG&E, p. 2.

⁶ Reply Comments of SCE, p. 3.

⁷ D.03-04-030, p. 44.

⁸ D.03-04-030, p. 46.

Commission in D.03-04-030 for a 1 MW size limit was a desire for consistency with the size limited created by the Legislature in Public Utilities Code Section 2827 for net metering.⁹ And, the Commission referred only to technological advances and economies of scale when it articulated its intent to revisit the 1 MW size limit; it *did not* identify cost shifting as a factor for consideration.¹⁰

In adopting CRS exceptions for ultra-clean, low emission DG *over* 1 MW in size, the Commission noted that it would not be appropriate to except such DG from the DWR Bond Charge because collections of the DWR Bond Charge in connection with “larger systems” would have a “noticeable impact” on collection amounts.¹¹ CCDC does not believe the Commission intended to include DG systems up to 5 MW among “larger systems” as that term was used in D.03-04-030. Doing so would create an inconsistency with the Commission’s stated intent to revisit exceptions from *all* CRS components for small, clean DG over 1 MW.

Further, customers who install DG typically also remain customers of the local investor owned utility. They pay the applicable CRS components in rates for their IOU service. It is also important to note that the current CRS exceptions have not resulted in a DG “gold rush.”

3. Conclusion.

CCDC reiterates its appreciation for the Commission’s efforts to date to encourage and support DG. As shown in the CCDC Petition, over the past three years, developments in technologies have occurred, which likely will result in economies of scale, and which justify increasing the CRS exception eligibility size limit for small, clean DG. Increasing the CRS exception eligibility limit for small, clean DG systems to include those that are 5 MW or less in size will not resulting in cost shifting and will further the State’s goal of encouraging “the development of environmentally-sound combined heat and power resources and distributed generation projects.”¹² CCDC respectfully requests that the Commission modify D.03-04-030

⁹ *Id.*

¹⁰ *Id.*

¹¹ D.03-04-030, p. 48.

¹² Energy Action Plan II, pp. 7-8 (September 21, 2005).

to increase the CRS exception eligibility limit for small, clean DG systems 5 MW or less, with the exception applying to the total eligible capacity.

DATED: December 27, 2006

DAY CARTER & MURPHY LLP

By: /s/ Ann L. Trowbridge
Ann L. Trowbridge

CERTIFICATE OF SERVICE

I, Christine J. Lambos, hereby certify that I served a copy of the **REPLY OF THE CALIFORNIA CLEAN DG COALITION TO RESPONSES TO PETITION FOR MODIFICATION OF DECISION 03-04-030: OPINION ON COST RESPONSIBILITY SURCHARGE MECHANISMS FOR CUSTOMER GENERATION DEPARTING LOAD** on December 27, 2006, on all known parties to Rulemaking 02-01-011 via electronic mail to those whose addresses are available and via U.S. mail to those who do not have an electronic address.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 27th day of December, 2006, at Sacramento, California.

/s/ Christine J. Lambos
CHRISTINE J. LAMBOS

VIA ELECTRONIC MAIL:

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